APPENDIX II
Contributions from Other Donors
Section 2207 Report to Congress
July 1 through September 30, 2008

International Donor Performance

Pledges

At the Madrid Conference in October 2003, 37 foreign countries, the European Commission, the World Bank, and the International Monetary Fund (IMF) pledged a total of about $14.58 billion to Iraq's reconstruction. The total amount included pledges for grants and technical assistance totaling $4.53 billion and soft loans totaling $10.05 billion. Foreign countries pledged an additional $2.42 billion in conjunction with the International Compact with Iraq (ICI) meetings in May 2007 and May 2008, including about $723 million in new assistance and $1.70 billion in new soft loans. The total soft loan pledges include $500 million in trade credits from Saudi Arabia, $500 million in soft loan programs from the Islamic Development Bank, $1.0 billion in soft loans from Iran, about $600 million (€400 million) from Italy, and $100 million from South Korea. As of September 30, 2008, the total of pledges by international donors of assistance of all kinds stood at about $17.006 billion, including about $5.26 billion pledged in assistance and $11.75 billion pledged in soft loans and trade credits.

Soft Loans

Until mid-2007, Iraq took little action to access the $10.75 billion in pledged soft loans, except to borrow under a $475 million International Monetary Fund (IMF) Emergency Post-Conflict Agreement facility, which it has since repaid. During 2007 and 2008, Iraq accepted soft loans from Japan, the World Bank, and Italy for $2.4 billion, $399 million, and $150 million, respectively.

During the reporting quarter (July 1 to September 30, the third quarter of 2008), Japan added about $300 million in soft loan projects. The soft loans from Japan and the World Bank are generally for major infrastructure and energy sector projects, while Italy's loan will support Iraq's agricultural sector. Japan, Italy, and Korea are working to issue another $1.1 billion, $450 million, and $100 million in soft loans, respectively. Iran has not published any specific figures, but numerous reports indicate that Iranian soft loan assistance is being distributed widely in south-central Iraq in support of programs ranging from border crossing improvements and other building projects to garbage collection.

Bilateral and Multilateral Grants and Technical Assistance

There has been little change this quarter in the total commitments of bilateral and multilateral grants and technical assistance. Most of the activity between Iraq and its international partners this quarter was designed to lay the foundations for increasing amounts of private sector trade and investment, rather than official foreign assistance.

Donor countries have committed $5.57 billion in grants and technical assistance programs, compared to their earlier pledges of assistance totaling $5.26 billion – that is, six percent more than their total initial pledges. This includes $1.84 billion that bilateral donors and the European Commission (EC) have so far deposited with the International Reconstruction Fund Facility for Iraq (IRFFI), the multilateral mechanism for managing reconstruction assistance. This total includes Italy's decision in August to increase its IRFFI contribution by $10 million and a prior U.S. contribution of $10 million.

Non-U.S. donors have provided a total of $3.73 billion in bilateral assistance. The last full survey of bilateral assistance contributions was conducted in 2007. Since then, bilateral assistance figures have been updated on an ad hoc basis, relying upon reports provided by governments and in public media. Donors scaled back their contributions in view of rising Iraqi reserves; the outlook for future donor support is uncertain in view of challenges posed by the current economic crisis.

The International Reconstruction Fund Facility for Iraq

The Donors Committee of the International Reconstruction Fund Facility for Iraq (IRFFI) last met in Baghdad on July 7. The Committee affirmed its earlier decisions to align the IRFFI's activities to the goals identified in the International Compact with Iraq and to end the IRFFI on December 31, 2010. The IRFFI has been the principal multilaterally administered vehicle for delivering international donor assistance to Iraq; IRFFI funds have supported a total of 157 projects that are either completed or currently underway.

As of August 31, donors had committed $1.854 billion to the two IRFFI Iraq Trust Funds (ITFs), including $1.357 billion to the fund managed by the UN Development Group and $497 million to the fund managed by the World Bank. This reflects an increase of $20 million over the June 2008 total, including the $10 million contribution from Italy noted earlier. The European Union/European Commission has provided more than 42 percent of the IRFFI's total resources. In 2007 and the first half of 2008, the IRFFI received $244 million in additional contributions from Australia, Canada, Denmark, the European Commission, Japan, Korea, Spain, and Sweden. In addition, the two ITFs have accumulated about $72 million in interest earnings that can be applied to ITF activities. Together, these additional resources represent a 20 percent increase since 2006 in the amount of funds available in the ITFs for assistance to Iraq.

International Compact with Iraq

More than 90 countries and international organizations met in Stockholm, Sweden, on May 29 to show their support for Iraq's efforts to achieve its goals under the International Compact with Iraq. Iraq presented its first annual ICI Progress Report, which demonstrated that the Iraqi government is making substantial progress in meeting three-quarters of the 400 specific ICI benchmarks set for 2007 and 2008. Prime Minister Maliki emphasized progress in each of the Compact's three major pillars: security, politics, and economics. Deputy Prime Minister Barham Salih and Prime Minister Maliki

noted that higher oil revenues have made it possible for Iraq to pay for an increasing amount of its own economic reconstruction.

Nevertheless, Iraq will continue to require international partnerships in the short-term to secure technical assistance to build ministerial and provincial capacity and, in the long-term, for greater private sector trade and investment. To emphasize its ownership over its own development process, Iraq has adopted the principles of the Organization for Economic Cooperation and Development's Paris Declaration on Aid Effectiveness and offered to develop a mechanism to co-finance new programs undertaken with international partners. Iraq's Minister of Planning subsequently distributed in August the draft Terms of Reference for a joint Iraq-Donor Task Force to implement the principles of the Paris Declaration. On the same day, Iraq and the United Nations Assistance Mission in Iraq signed a Memorandum of Understanding aimed at better coordinating their joint efforts to implement the ICI.

New Developments in International Cooperation

One of the main objectives of the ICI is Iraq's movement away from reliance on international donor assistance and toward international partnerships based on growing trade and investment. During the third quarter of 2008, Iraq and its international partners made several strides in this direction:

- Iraq and the European Commission continued to work toward a new comprehensive Trade and Cooperation Agreement (TCA). Through the TCA, the Commission aims:
  - to facilitate Iraq's engagement with the international community and with the EU in particular, to the benefit of the internal and regional stabilization process;
  - to stimulate and consolidate ongoing institutional and socioeconomic reforms;
  - to contribute to the socioeconomic development of Iraq and to the improvement of living conditions in the country;
  - to promote bilateral trade relations in accordance with WTO principles;
  - to ensure a minimum level of predictability, transparency, and legal certainty for economic operators;
  - and to improve the trade arrangements between Iraq and the European Union.

- On July 7, Prime Minister Maliki made a state visit to Abu Dhabi and participated in extensive and detailed discussions on trade and investment issues. During the visit, the United Arab Emirates announced that it would cancel 100 percent of Iraq's Saddam-era debt, name a new Ambassador to Baghdad, and send trade and investment delegations to Iraq.

- On July 10, during Turkish Prime Minister Erdogan's visit to Baghdad, Turkey and Iraq signed an agreement establishing a high-level strategic cooperation council to streamline their working relationship regarding military, border security, trade, economic, and energy issues.

- In July, high-level Iraqi officials met with officials from the Organization for Economic Cooperation and Development (OECD) to discuss Iraqi policies affecting the investment climate, private sector development, and corruption. The session was followed by a day of anti-corruption training.

- During the first week of August, Prime Minister Maliki visited Berlin, where he signed a new treaty regarding the promotion and reciprocal protection of investments with the German government. The treaty is intended to pave the way for greater German trade and investment in Iraq.

- A delegation led by Iraq's Minister of Education met in July with Syrian counterparts in Damascus to discuss cooperation in science and technology. The delegation focused particularly on advanced technologies for developing and managing water resources, and are planning cooperative projects that will also include Turkey. The same week, representatives of the chambers of commerce of Iraq and Syria met to make plans for greater cooperation and joint trade and investment promotion.

- On August 20, Lebanese Prime Minster Fouad Siniora visited Baghdad to discuss greater economic cooperation, including a possible new agreement for greater trade and investment. The Siniora visit followed a visit to Baghdad by King Abdullah of Jordan. Economic cooperation was a major topic for discussion during both visits.

- Numerous delegations of Iraqis have visited Iran to discuss economic topics and projects to be supported by Iran's ICI pledge of $1 billion in soft loans. During the previous quarter, Iraq and Iran signed a multi-faceted economic cooperation agreement.

- On September 1, in Geneva, Iraq's Minister of Science and Technology signed a Memorandum of Understanding with the UN Conference on Trade and Development (UNCTAD). This agreement outlines a joint review to be conducted by the UN and the Ministry to analyze Iraq's science, technology and innovation capabilities, and policies to assess how they might be modified to contribute to Iraq's economic development.

- In September, Saudi Arabia and Iraq signed an extradition treaty that will allow for Saudi nationals held in Iraqi courts to be returned to Saudi Arabia to go before Saudi courts and for Iraqis held in Saudi Arabia (including some held since the first Gulf War) to return to Iraq.

Debt Reduction

Since the Paris Club reached its agreement with Iraq in 2004, Iraq's official and commercial creditors have agreed to reduce approximately $90 billion in Iraqi Saddam-era debt by more than $78 billion, leaving about $11 billion. Iraq's Paris Club agreement provides for a total debt reduction of 80 percent; the final tranche of this debt relief will be provided in December, if Iraq continues to perform against its IMF reform program (see further discussion below).

Iraq's international partners pledged to help reduce the country's Saddam-era debt as part of their contributions to the International Compact with Iraq. Since the launching of the Compact in 2007, about $26 billion in debt obligations have been reduced to $900 million reflecting the effect of bilateral agreements with Russia, Bulgaria, Bosnia and Slovakia. Most recently, as noted above the United Arab Emirates announced that it would cancel all of Iraq's $7 billion in Saddam-era debts, although a formal debt reduction agreement does not yet appear to have been signed.

Of the $90 billion in debt subject to reduction, about $20.9 billion was owed to large commercial creditors. This debt was settled in a "debt-for-bond swap" that resulted in these creditors owning Iraqi bonds with a face value equal to 20 cents on the dollar for the debt owed, reducing this commercial debt by $16 billion. These bonds are internationally tradable and have recently risen in value toward 75 cents, an increase of 12 cents since they were first issued. This increase in value reflects a growing confidence in Iraq's security and economic environment.

The remainder of the debt to be reduced is between $53 billion and $76 billion; the precise amount will be subject to debt reconciliation negotiations. The largest amounts are owed to Saudi Arabia (between $15 billion and $39 billion), China ($8.5 billion), Kuwait (estimated at $8.2 billion), and Qatar (estimated at $5 billion). Jordan, Turkey, Egypt, Poland, Brazil, Greece, Pakistan, Tunisia, and Morocco are also owed significant amounts.

Major Donors

Japan

Japan has pledged and disbursed more assistance to Iraq than any other country except the United States. At the Madrid Donors' Conference, Japan pledged a total of $5 billion for Iraq reconstruction assistance, including $1.5 billion in grant aid and up to $3.5 billion in yen-denominated concessional loans. By May 2005, Japan had obligated the full sum of its $1.5 billion grant aid pledge to meet urgent Iraqi needs in areas such as electricity, water and sanitation, health, education, infrastructure, employment, and security.

Japan has deposited a total of $490 million with the IRFFI ($360 million in the UN Trust Fund and $130 million in the World Bank Trust Fund), as well as $10 million with the International Finance Corporation's Small Business Financing Facility. In addition, Japan has disbursed $242 million directly to international organizations to implement projects such as restoration of water and sewage systems, garbage collection, and sanitation. Japan has made the balance of its disbursements – $943 million – in direct bilateral projects or through Iraqi institutions and NGOs for implementation.

As of September, Japan is working with Iraq on 12 soft loan-supported projects worth a total of $2.4 billion. During this quarter, Japan added two new soft loan projects worth about $300 million focused primarily on infrastructure rehabilitation projects in energy and other key sectors. These highly concessionary loans are designed to help Iraq recover its industrial strength and provide necessary services such as electricity. The projects will rehabilitate the port of Umm Qasr; improve irrigation in the Muthanna Province; rehabilitate the power plant at Al-Musayab; repair roads and bridges in Samawa; upgrade the Basrah refinery; rehabilitate the Khor al-Zubair fertilizer plant; construct oil export facilities at al-Faw; reconstruct parts of the national electricity supply system; improve water supplies in Basrah; reconstruct parts of the electricity sector in Kurdistan; improve water supplies in Kurdistan; and provide engineering services to improve the sewerage system of Baghdad.

The United Kingdom

At the Madrid Donors' Conference, the United Kingdom (UK) pledged £296 million ($452 million) for the Iraq reconstruction effort for 2004 through 2006. This was included in the UK's total pledge of £544 million ($920 million), which included both the UK's previously announced humanitarian assistance and its assessed portion of the European Commission's assistance. When the International Compact with Iraq was established in May 2007, the UK pledged an additional £200 million ($380 million) in assistance, increasing its total pledge to £744 million ($1.3 billion). During the second quarter of 2008, the UK gave about $25 million to humanitarian appeals for the benefit of Iraqi refugees.

The UK was one of the first major donors to fully disburse its Madrid pledge. Since 2003, the UK has disbursed £210 million ($410 million) for projects in support of reconstruction in southern Iraq, governance and economic capacity building, the justice sector, independent media, and civil society, as well as more than £147 million ($270 million) towards emergency humanitarian assistance. The UK's Department for International Development (DFID) is responsible for these projects. The UK also deposited $127 million in the IRFFI, including $71 million to the World Bank Iraq Trust Fund and $56 million to the UN Iraq Trust Fund.

Earlier editions of this appendix provide extensive detail about the major UK contributions. In summary, the UK's efforts have focused on electricity (repairing transmission lines, securing generation, improving distribution in the Basrah region), water and sanitation (replacing mains, training staff, refurbishing and repairing systems in Southern Iraq), provincial and ministerial capacity development (supporting the Provincial Reconstruction Development Committees and the Provincial Reconstruction Teams in Southern Iraq, particularly), and economic assistance (helping Iraq in its relationship with the International Monetary Fund and in developing the International Compact with Iraq and Iraq's National Development Strategy).

In the Basrah region, the UK supported the establishment of the Basrah Investment Promotion Agency and the Basrah Development Fund, which promote investment opportunities and provide expertise to enterprises. The Basrah Development Commission, launched in December 2007, works to increase levels of investment and economic growth and has developed an economic master plan. The UK also supports the political process through support for the electoral commission, civil society organizations, and public participation in the elections. It helped to set up the Prime Minister's office and the Cabinet and Committee system, and to achieve continuity in the transition to the new elected administration.

UK Prime Minister Gordon Brown has emphasized that these sorts of assistance efforts would continue and urged UK private sector businesses to watch for emerging opportunities as they develop in Iraq.

The European Commission

The objective of the European Union's policy towards Iraq is to contribute to a safe, stable, unified, prosperous, and democratic Iraq that upholds human rights and protects its minorities. To contribute towards this objective, the European Commission is fully engaged in the reconstruction of Iraq.

Between 2003 and 2007, the EC provided €829 million (approximately $1.039 billion calculated at the average exchange rates prevailing during the years when funds were committed) to assist Iraq. These funds have focused mainly on the rehabilitation of basic services and support of the political process, including elections, support of job creation, Iraqi capacity building, and support to the rule of law. This included €711 million ($895

million) to economic reconstruction and €118 million ($143 million) for humanitarian assistance.

The Commission is by far the largest single donor of funds to IRFFI, having contributed €604 million ($771 million) or 42 percent of the total commitments to IRFFI's Trust Funds. Adding up all donations coming from the EC and EU member countries, total European support to the IRFFI amounts to $1.13 billion, or 61 percent of all IRFFI contributions.

The European Commission has announced that it planned to spend a total of about €94 million (about $140 million) in 2008, including €74 million ($110 million) for economic reconstruction and rule of law and €20 million ($30 million) for humanitarian assistance. The overall objectives of the 2008 program are to strengthen the capacity of Iraqi institutions, improve basic services, and support displaced persons. In its July 2008 "Iraq State of Play" report, the EC observed that "Iraq possesses considerable financial resources of its own, which the country's institutions are seeking to put to the best use possible. Most Iraqi institutions, however, still have limited management capacities and lack the structures to implement their investment programs. Building the capacity of Iraqi institutions is therefore a key aspect of present international cooperation and a major objective for the EC support."

In September, the EC issued its "Report on EC Intervention to Alleviate the Situation of Iraq's Refugees and Internally Displaced Persons." The report provides a detailed assessment of the current situation of displaced Iraqis within Iraq, in neighboring countries, and in Europe. Since 2003, EC support to provide humanitarian and development assistance to the displaced persons and refugees totals about €140 million ($210 million). The EC continues to work with international organizations that have experience in the region in an effort to identify the needs of refugees and host communities alike, and to strengthen existing structures in affected countries. Looking to the future, the EC plans to do more to support the return and reintegration of returnees and IDPs inside Iraq. The EC will also continue to help with projects for water and other basic services in Jordan and Syria.

The EC is a strong supporter of the International Compact with Iraq and has decided to align its cooperation priorities to those identified in the Compact. It also financially supports the Compact's Secretariat, sending a strong signal of support to the Iraqi government and the United Nations, as co-chairs of the Compact.

As discussed above, the EC and Iraq have held five rounds of negotiations for a Trade and Cooperation Agreement. The EC delegation has been represented in Baghdad at the ambassadorial level since mid-2006.

United Nations

As of August 31, donors had committed $1.357 billion to the UN Development Group's Iraq Trust Fund, one of the two trust funds under the International Reconstruction Fund

Facility for Iraq (IRFFI). This sum includes a $5 million contribution from the United States. The four largest contributors to the UNDG Iraq Trust Fund are the European Commission ($592 million), Japan ($361 million), Spain ($93 million), and the United Kingdom ($56 million). New donor commitments to the UNDG Iraq Trust Fund during 2007 and the first half of 2008 totaled about $210 million. During the third quarter of 2008, Italy roughly doubled its contribution from about $20 million to $40 million.

World Bank

The World Bank's assistance to Iraq is based on the second Interim Strategy Note (ISN) discussed by the Bank's Executive Directors in September 2005. The primary objectives of this strategy is to assist Iraq in developing institutional frameworks, policies, and systems that allow Iraq to use its own financial resources more transparently and effectively, and to help Iraq deliver basic services in a sustainable manner.

To this end, the World Bank's program includes two prongs: (1) analytical and advisory activities, especially in the area of public finance management, and (2) investment projects for the reconstruction and provision of basic services.

The ISN includes a financial assistance framework using the grant resources from the World Bank Iraq Trust Fund and up to $500 million of International Development Association (IDA) credits. The ISN also potentially provides for up to $500 million in International Bank for Reconstruction and Development (IBRD) lending, assuming critical progress regarding creditworthiness. The Bank is currently initiating the preparation of its third ISN to review progress under the second ISN and to update the World Bank's strategic focus to reflect the current situation and Iraqi priorities.

As of August 31, donors had committed to the World Bank Iraq Trust Fund approximately $496.9 million, of which $494.4 million had been deposited. With these deposits, the World Bank Iraq Trust Fund finances 16 grant-based projects amounting to $437 million.

World Bank projects, including those financed through the Iraq Trust Fund, are implemented by Iraqi government agencies. This approach represents an important tool to build capacity and institutions and ensure the sustainability of project outcomes. Thirteen of the 15 active projects, valued at $454 million, are implemented directly by Iraqi governmental authorities; the other two, valued at $11 million, are implemented by the World Bank at the request of the Iraqi Ministry of Planning and support capacity building and technical assistance activities.

The World Bank has also resumed lending to Iraq for the first time in more than 25 years. The Bank has approved $508 million in concessional lending from IDA, including the $100 million Third Emergency Education Project approved in November 2005; the $135 million Emergency Road Rehabilitation Project approved in June 2006; the $40 million Dokan and Derbandihkan Emergency Hydropower Project approved in December 2006; and the $124 million Emergency Electricity Reconstruction Project approved in

March 2007. The most recent IDA project to be approved is a $120 million project for emergency water supplies.

The World Bank has provided technical support to the Iraqi government in formulating the Compact and continues to support its implementation. Recognizing that Iraq has had difficulty in utilizing its own resources, the Compact places improving public resource management and strengthening institutions and governance at the heart of its socio-economic development. Emphasizing policy advice and economic sector work, the World Bank is undertaking a large program of advisory and technical assistance work to help Iraq build its institutional capacity for more effective and transparent use of Iraq's own resources. This work focuses on public sector governance, poverty and social safety nets, and growth and private sector development.

Working closely with Iraqi ministries, the World Bank recently completed its Public Expenditure and Institutional Assessment. The assessment documents the status of Iraq's national and sub-national public financial management systems. This effort also included workshops to help Iraqi officials improve the internal controls of the food distribution system. The World Bank is supporting the development of a new procurement law, and has organized workshops with the Board of Supreme Audit and the Higher Judicial Council on audit and legal and judicial reform.

The World Bank recently renewed and expanded its staff in Baghdad, adding a full-time economist to the country director and deputy director currently in place. To support project management teams and supervise project implementation, the World Bank also engages a cadre of professional Iraqi staff. In addition, the World Bank Iraq Trust Fund employs a Fiduciary Monitoring Agent to help monitor project implementation and compliance with the Bank's fiduciary procedures. The Agent employs about 25 Iraqis who visit project sites and meet with ministry staff on a daily basis. The Agent provides monthly project reports that document project progress through the use of digital photos and convey valuable information about the status and quality of project implementation.

IMF

At the Madrid Donors' Conference in October 2003, the International Monetary Fund pledged to provide up to $2.55 billion in financial facilities to Iraq if needed. On September 29, 2004, the IMF Board approved the first of such agreements, an Emergency Post-Conflict Assistance (EPCA) package that provided Iraq the equivalent at that time of $430 million in special drawing rights for balance-of-payments support. Iraq drew upon this facility but left the funds on deposit with the IMF, repaying the loan in full on December 12, 2007.

The main goals under the EPCA were to maintain macroeconomic stability and to lay the groundwork for a long-term development and reform program. On December 23, 2005, the IMF approved a Stand-by Arrangement (SBA) for Iraq that provides special drawing rights equivalent to approximately $685 million in balance-of-payments support. As a result of satisfactory performance implementing reforms required under the previous

SBA, the IMF Executive Board approved a new SBA for Iraq on December 19, 2007, that is designed to support Iraq's economic program through March 2009.

The IMF Executive Board completed its first review of the current SBA on September 3. The chairman of the review remarked, "After several difficult years, economic prospects for Iraq are improving." Based on Iraq's satisfactory performance, the Board left in place Iraq's SBA balance of payments support facility for SDR 475.36 million (about $746 million). Given its strong financial position, Iraq has not needed to use the facility. The Board will meet again to review Iraq's performance in December. Based on that review, Iraq will receive the final 20 percent tranche in debt reduction under its Paris Club agreement.

The IMF also provides technical assistance to Iraq, including training in such policy areas as public expenditure management, fiscal federalism, tax policy, tax and customs administration, monetary operations, banking supervision, payments system reform, and statistics. Some of this training has been done jointly with the World Bank, and the IMF has helped to coordinate macroeconomic training with other major providers including the World Bank, the United States, and the United Kingdom.

Useful Web-Based References for International Donor Assistance to Iraq:

- The International Compact with Iraq:
  http://www.iraqcompact.org/ and http://www.uniraq.org/ici.asp

- The Donor Assistance Database (still under development):
  http://www.mop-iraq.org/dad

- The UNDG Iraq Trust Fund and the World Bank Iraq Trust Fund Newsletters, updated every two to three months and both accessible at: http://www.irffi.org

- Japanese assistance to Iraq:
  http://www.mofa.go.jp/region/middle_e/iraq/issue2003/assistance/index.html

- United Kingdom assistance to Iraq:
  http://www.dfid.gov.uk/countries/asia/iraq.asp

- European assistance to Iraq:
  http://europa.eu/external relations/iraq/intro/index.htm